Investment Philosophy

Royston Capital Investment Philosophy focuses on providing investment advice that puts our clients' best interests first. The provision of our investment advice is overlaid with an in-depth understanding of our clients' wealth objectives and taxation considerations.

We seek to preserve the real value of our clients' capital while seeking to prudently enhance wealth over the long term. Our logo uses a stylised family crest to help represent the value of Royston Capital and our heritage. Each of part of the family crest has a traditional meaning:

- White shield symbolises 'peace and sincerity'
- Hourglass symbolises 'flight of time; mortality'
- Helmet denotes 'wisdom and security in defence; strength and protection'
- Chevron symbolises 'protection and faithful service'
- Stars symbolises 'celestial goodness; noble person; excellence'
- Stag symbolises 'peace and harmony'
- Acacia leaves symbolises 'eternal and affectionate remembrance'

We believe that our investment philosophy meets the above values and will help to ensure we continue to place our clients' best interest first, invest ethically, and build wealth.

General Approach:

We are long term patient investors. Our focus is on building and preserving wealth over the long term. All investing requires risk return trade-offs.

The best way to manage risk is through effective diversification both within and across asset classes. This is because every asset class has different risk and reward characteristics. This point is best illustrated in the table below sourced from Vanguard showing the different and often uncorrelated returns by asset class over the last 20 years.

Asset classes include equities (domestic, international, listed and unlisted), property (domestic international, listed and unlisted), Fixed interest securities (domestic, international, government and corporate), private equity and alternatives, and cash.

Financial year total returns (%) for the major asset classes

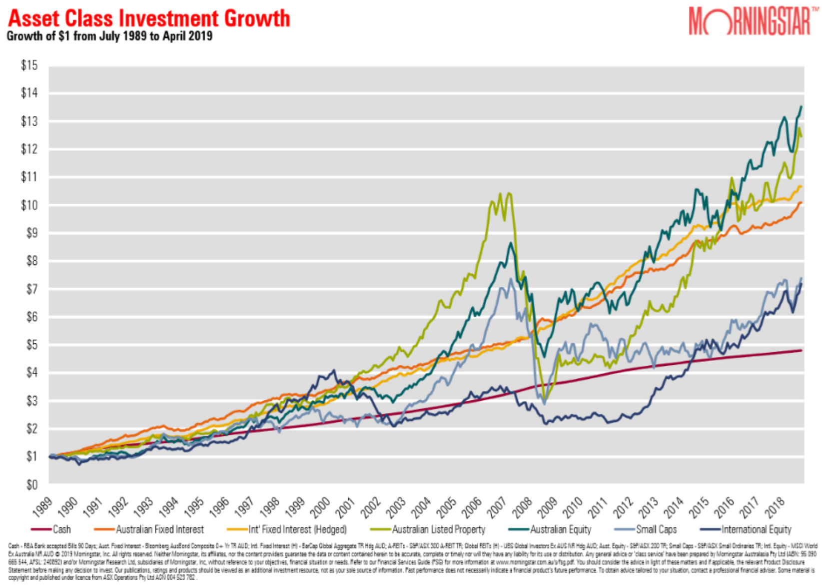
Year	Australian Shares	International Shares	International Shares (Hedged)[1]	US Shares	Australian Bonds	International Bonds (Hedged)[2]	Cash	Australian Listed Property	International Listed Property[3]
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	–1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	–2.0	–5.8	10.3	22.4	15.3	13.5	7.7	–15.9
1992	13.0	7.1	–3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	8.7	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	15.5	0.0	6.7	–6.5	–1.1	2.1	4.9	9.8	8.4
1995	6.4	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	14.3	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.8	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.0	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	14.1	8.2	15.9	14.2	3.3	5.5	5.0	4.3	–6.8
2000	16.8	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	–6.0	–16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	–4.5	–23.5	–19.3	–26.3	6.2	8.0	4.7	15.5	7.5
2003	–1.1	–18.5	–6.2	–15.2	9.8	12.2	5.0	12.1	–5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	–4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	–12.1	–21.3	–15.7	–23.4	4.4	8.6	7.3	–36.3	–28.6
2009	–22.1	–16.3	–26.6	–12.5	10.8	11.5	5.5	–42.3	–31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
2012	–7.0	–0.5	–2.1	11.1	12.4	11.9	4.7	11.0	7.5
2013	20.7	33.1	21.3	32.5	2.8	4.4	3.3	24.2	24.3
2014	17.6	20.4	21.9	22.7	6.1	7.2	2.7	11.1	11.8
2015	5.7	25.2	8.5	31.8	5.6	6.3	2.6	20.3	23.1
2016	2.0	0.4	–2.7	7.5	7.0	10.8	2.2	24.6	20.4
2017	13.1	14.7	18.9	13.8	0.2	–1.0	1.8	–6.3	–4.8
2018	13.7	15.4	10.8	19.0	3.1	2.5	1.8	13.0	9.0
Average	9.8	8.6	8.0	12.1	8.1	8.8	6.2	9.9	10.5
Best	30.3 (3)	42.2 (3)	27.7 (4)	58.2 (7)	22.4 (3)	16.3 (3)	18.5 (1)	28.5 (2)	38.2 (4)
Worst	–22.1 (2)	–23.5 (3)	–26.6 (4)	–26.3 (3)	–1.1 (2)	–1.0 (2)	1.8 (6)	–42.3 (4)	–31.2 (4)

Investment markets are not efficient or rational. Asset classes and individual securities regularly become undervalued and overvalued and provide opportunities to buy assets below their intrinsic value and take profit on assets trading above intrinsic value.

Our investment approach seeks to add value from asset allocation, portfolio construction, stock selection and manager selection.

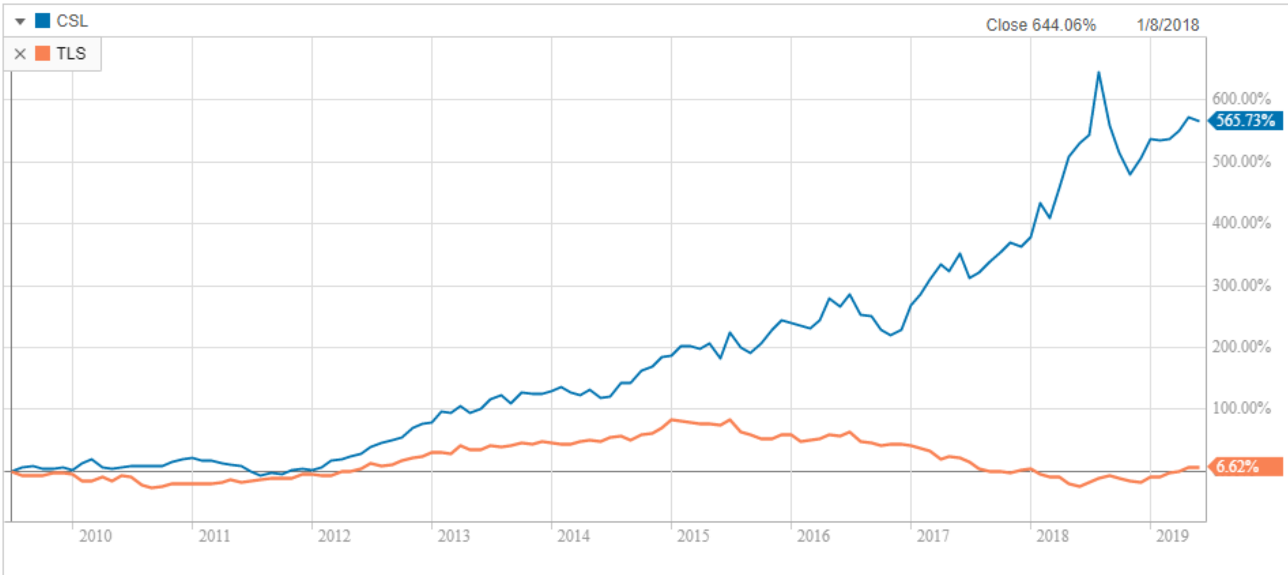
Investing is both an art and a science and requires an assessment and weighting of both qualitative and quantitative factors.

Equities deliver the highest returns of any asset class over the long term.



In equities, we invest in quality companies with characteristics we determine will enable them to deliver superior returns over the long term. We look for companies we believe can grow earnings and compound returns over the long term. In our view the most important factor that enables companies to do this is the presence of an 'economic moat'. A moat is a structural feature that provides sustainable competitive advantage and allows the generation of excess returns over the long term.

The power of compounding high returns on capital in a growing industry or sector is underappreciated by most investors. This is illustrated in the chart below which compares the 10-year share price growth of CSL vs Telstra. Over the last 20 years CSL has delivered an average annual total shareholder return (dividends plus capital growth) of 23.3% compared to 3.5% for Telstra.



Only a small subset of companies and securities pass our quantitative and qualitative quality filters.

Our quantitative filters focus on balance sheet strength, earnings quality, free cash flow generation, returns on capital margins and dividends. Our qualitive factors focus on the quality of the business and business model, direction, sustainability and areas of competitive advantage, the size of the opportunity set, management focus, quality and track record.

Value is always front of mind. We will not overpay for any asset in any asset class regardless of quality. We do however follow the Buffett philosophy of 'it is better to pay a fair price for a great company than a great price for an average company.'

We believe in active management and the ability of concentrated high quality, high conviction portfolios to deliver superior risk weighted returns over the long term.

Our investment approach and quality focus are key parts of our risk management strategy with the intention of delivering lower drawdowns and above market returns during market corrections and periods of high volatility.

Our focus across all asset classes is capital preservation and stable income streams across dividends (equities), rents (property) and interest (fixed interest and interest-bearing securities).

Investment Process

Our investment process outlined below is tailored to equities but applies to our analysis and valuation of all securities including fixed interest, property and infrastructure assets.

<u>Stage 1 Financial Health- Financial screens</u>

We use financial databases to screen securities across key financial metrics. Metrics we use to assess a company's financial health and financial stability include Return on Equity, Debt to Equity, interest cover, EBIT and EBITDA margins, free cash flow and cash flow yield, and dividends. We screen across the latest available data and across averages over longer periods. An important part of this analysis is analysing the stability, direction and trends in metrics such as ROE, margins, cash flow and dividends overtime. Consistency and longevity are core parts of our long only investment philosophy. Other factors that are important in developing the portfolio mix such as liquidity and company size/market capitalisation are also included in the financial screening phase.

<u>Stage 2 Company operations, strengths and prospects</u>

This phase involves desk based fundamental bottom up research to assess a company's enduring strength and prospects and covers off a range of quantitative and qualitative screens. Factors include stability and predictability of earnings, revenue and earnings growth, pricing power and the ability to pass through costs, maturity and scalability of the business, competitive position and competitive advantages, level of diversification/business complexity, capital intensity and company specific risk factors. An example of the latter would be key person risk in the case of a very successful long serving founder or CEO.

<u>Stage 3 Industry characteristics</u>

This is again desk based fundamental research to assess the impact of factors in the company's competitive operating environment or the industry it operates within that can impact current and future performance. One can only assess the quality of management and its strategy in the context of its broader operating environment. Screens include industry growth rate, industry development phase (growth, maturity, decline), size of opportunity set, pace and magnitude of technology change/disruption, industry structure and stability, barriers to entry, industry regulation and industry specific risks. An example of an industry specific risk would be companies operating in the agricultural sector where more conservative valuations are required to compensate for the higher volatility and risk.

<u>Stage 4 Management Stewardship and governance</u>

Finally, we assess and rank the competence and integrity of the current management team. Factors include track record, a clearly articulated strategy and record of implementation and delivery, cost and capital allocation discipline, clean and consistent accounts and messaging, best practice and shareholder aligned remuneration policies and procedures and succession planning. The structure, experience, and track record of the board and board members is also reviewed here along with a general assessment of the company's culture.

All these screens are designed to build a complete picture and highlight any red flags and areas of contradiction. For example, a company that is losing market share in its industry would be unlikely to have rising margins. Similarly, a company that has a high level of CEO, executive and general staff turnover is unlikely to have an enduring and quality company culture.

Stage 5 Valuation

The last phase is determining the intrinsic value of the small subset of the securities and companies that pass our filters. Having the rights inputs and insights is essential to valuing any security and this can only be achieved with the previously outlined bottom up analysis. For equities we use a range of valuation methodologies depending on the company characteristics including discounted cash flow analysis, price earnings ratios, price to book ratios, price to cash flow and valuation relative to peer groups. Asset class specific valuation tools are also used in the case of listed property (e.g. price to NTA/Net tangible assets) direct property and fixed interest and interest-bearing securities.

Equities (ASX listed, International listed and private equity)

When investing in equities we seek businesses with conservative balance sheets, solid earnings' growth, and reasonable valuations. Other characteristics we seek include:

- Attractive dividend yield or capacity to pay such over time
- Free cash flow that exceeds debt servicing obligations (not borrowing to pay dividends) and sound capital expenditure management
- Sound and transparent earnings growth
- Earnings predictability
- High quality management and shareholder friendly Board
- Justifiable Price / Earnings ratio (PE)

Fixed interest- and interest-bearing securities

When investing in fixed interest securities we seek preservation of capital while also seeking attractive income streams. We consider the following variables:

- Credit rating and profitability of underlying issuer
- Ranking within the capital structure
- Floating or fixed rate issue
- Investor protection within the structure
- Liquidity
- Frequency of distributions and availability of franking credits
- Running yield and yield to maturity
- Duration risk
- Conversion discounts and step-up margins
- Other complexities with the structure such as put and call options should they exist

Property investments

When investing in listed property securities and direct property, including property syndicates, we seek the same fundamentals as described for equities and fixed interest securities including:

- Income security
- Capital growth potential
- Weighted average lease expiry (if applicable)
- Conservative gearing
- Market timing (investment cycle)
- Lease terms and conditions
- Tenant quality
- Asset due diligence (where possible)
- Liquidity (ability to access and withdraw your invested funds)

Alternative and specialist asset classes

From time to time we research and recommend specialist investment funds to access alternative or otherwise difficult to access investments. This is often achieved through specialist who we know well to selectively add value through intensive management and the application of specific skills and expertise. Alternative and specialist investment assets and markets may extend to:

- Emerging market equities
- Emerging market debt
- Hedge funds / absolute return funds
- Commodities and precious metals
- Private equity
- Venture capital
- Infrastructure
- Liquidity (ability to access and withdraw your invested funds)

Managed funds
When researching and selecting fund managers, Royston capital will seek the most recent copy of the relevant Fund Manager's IFSA Investment Management Questionnaire and the Product Disclosure Statement. These documents will be reviewed, discussed and assessed with particular focus on:

- Organisation and People
- Compliance
- Governance Policy
- Investment Philosophy and Investment Style
- Investment Performance
- Custody of Assets
- Customer Service, Administration and Reporting
- Product Fees.

If deemed necessary, the Committee will meet with the relevant Investment Professionals and Senior Management of the Fund Manager.

The Fund Manager's position on ethical issues in light of the Royston Capital's Ethical Stance on investments will be taken into consideration where appropriate for clients of Royston Capital.

Portfolios

Core Australian Equities Model Portfolio
In line with our investment philosophy and process the core Australian Equities portfolio is a long only, concentrated high conviction portfolio. This translates into the following portfolio metrics.

Portfolio construction
- 20-25 Stocks
- Benchmark to ASX 200 Accumulation Index
- Maximum weight of 12.5%
- Turnover target of around 20%
- Benchmark and style agnostic
- Sector agnostic but with common sense overlays around upper limits on sector and industry exposures.

Core	Max Stock position	Max initial Stock position
ASX 20	10% - 12.5%	5%
ASX 50	10% - 12.5%	5%
ASX 100	7% - 10%	4%
ASX 200	4% - 7%	3%
ASX 300	3% - 4%	2%
ALL ORDS	3%	1%

- The portfolio aims to be fully invested but generally has up to 3% cash at any one time and is otherwise unrestricted.
- Maximum allocation to small caps/incubator stocks outside of ASX 200 of 5 by number and 5% by weight in total at entry point.

Sell reasons/discipline
- Valuation becomes stretched (either sell out or reduce)
- Stock exceeds maximum weight (rebalance)
- Loss of confidence in management or key staff departure including CEO and/or CFO
- Eroding/moat competitive position
- Poor acquisition (e.g. An acquisition outside core area of competence, or paid too much)
- Better idea
- Got investment case wrong
- Deteriorating key financial metrics (e.g. rising debt levels outside our preferred range)

International Equities Direct
The International Equities Direct model portfolio is a long only concentrated portfolio of listed international equities.

Key portfolio metrics:
- Benchmark: MSCI net div ex Aust Index will be served as a reference index.
- Investment Universe: Companies listed in the following jurisdictions; US, UK, Europe, Japan, South Korea and Hong Kong
- Number of Stocks: Generally, 15 – 25
- Market Capitalisation – Majority of portfolio in large capitalisation stocks (>US$10 billion)
- Cash: The portfolio aims to be fully invested but would generally have between 1.5% - 3% cash at any one time and is otherwise unrestricted.

International Fund of Funds
Our international equity portfolio employs a Fund of Funds approach and seeks out specialist managers and opportunities not always available to retail investors.

When researching and selecting international fund managers, Royston Capital will seek to review with focus on:

Investment Philosophy and Investment Style that is in line with that of Royston Capital

- Organisation and People
- Compliance
- Governance Policy
- Investment Performance
- Custody of Assets
- Customer Service, Administration and Reporting
- Product Fees.

The Fund Manager's position on ethical issues considering the Royston Capital's Ethical Stance on investments will be taken into consideration.

- The funds we select have a high conviction to their investment strategy and as a result generally hold a maximum of 50 stocks. Each manager in the portfolio has a specific purpose and expertise.
- Benchmark - MSCI World ex Aust (Net Div)
- Cash - The portfolio aims to be fully invested but underlying managers may hold a cash balance for liquidity purposes and investment opportunities.

Interest-Bearing Securities
The portfolio primarily focuses on listed interest-bearing securities and other investments that are available to retail investors.

Portfolio metrics:

- Benchmark - Bloomberg Ausbond Composite Bond Index
- Investment Universe
    - Term deposits
    - ASX listed income securities
    - Corporate bonds
    - Government and semi-government securities
    - Managed funds (listed and unlisted)
- Number of stocks- Generally 8-12
- Cash - The portfolio aims to be fully invested but generally has up to 3% cash at any one time and is otherwise unrestricted.

Unlisted Interest-Bearing Securities
The portfolio primarily focuses on unlisted interest-bearing securities and other investments that are available to wholesale, and sometimes retail, investors.

Portfolio metrics:

- Benchmark - Bloomberg Global Aggregate Bond Index (Hedged AUD)
- Investment Universe
    - Investment grade securities
    - Term deposits
    - ASX listed income securities
    - Corporate bonds
    - Government and semi-government securities
    - Managed funds (listed and unlisted)
- Number of investments- Generally 6-10
- Cash - The portfolio aims to be fully invested but generally has up to 3% cash at any one time and is otherwise unrestricted.

Family Office Intergenerational Wealth Portfolio
The portfolio is a blend of the model portfolios noted above including other approved managed investment schemes (listed and unlisted). The intention of the portfolio is to invest with a dynamic asset allocation with a long-term investment horizon. The portfolio should suit wholesale and sophisticated investors seeking an intergenerational portfolio of assets. The portfolio assets should seek to generate returns with a minimum hurdle rate of 7.5% pa after costs.

Portfolio metrics:

- Benchmark – MSCI World net Div AUD
- Investment Universe
    - Royston Capital Model Portfolios
        - Equity portfolios may be blended to reduce the number of securities.
    - Managed investment schemes (listed and unlisted)
- Cash - The portfolio aims to be fully invested but generally has up to 3% cash at any one time and is otherwise unrestricted.
- The portfolio will have a dynamic asset allocation.